BRITISH COLUMBIA

BC STATS

Ministry of Management Services

Infoline

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- **Prices up 3.4% in March.**
- **Wholesale trade declines, ending three months of growth.**
- **Gambling revenues reach $1.0 billion in 2001.**

Prices

- **British Columbia's Consumer Price Index (CPI) rose 3.4% in March compared to the same month of 2002.** Much of the increase was due to higher energy prices (+17.6%). Excluding energy, the CPI posted a 2.3% gain. Food (1.9%) and shelter (+2.1%) prices were also higher in March than a year earlier. Transportation (+9.0%) and education (+14.9%) saw large gains. Both Vancouver (+3.2%) and Victoria (+3.4%) experienced inflation rates that were similar to the provincial average.

  Nationally, the consumer price index rose 4.3% in March, boosted by a 17.5% increase in energy prices. Alberta (+7.6%) posted the biggest jump in prices followed by Prince Edward Island (+7.1%), Nova Scotia (+6.8%) and New Brunswick (+6.8%). Ontario (+3.3%) and BC (+3.4%) made the smallest gains. *Source: Statistics Canada*

The Economy

- **There were 857 consumer bankruptcies registered in the province in February, up from 803 a year earlier.** However, there were fewer insolvent businesses. The number of business bankruptcies in BC dropped to 93, down from 118 in February 2002. Most of the failures were in the construction (25), retail (19), business services (10) and accommodation and food service (10) industries.

  Source: Industry Canada

- **Sales by retailers in the province inched up 0.6% (seasonally adjusted) in February after rising 1.9% in January.** Across the country, retail sales rose 1.5% following a 0.9% increase in the previous month. The automotive sector made a 3.9% gain, with sales by motor and recreational vehicle dealers up 4.3%. Sales grew in all provinces and territories except Nunavut (-1.0%). Yukon (+9.4%) saw the biggest increase, followed by Northwest Territories (+3.4%) and Alberta (+2.5%). *Source: Statistics Canada*

- **Wholesalers in BC saw a 2.5% (seasonally adjusted) decline in February after three months of growth.** Canada-wide, wholesale merchants' sales slipped 0.2% following a 2.1% increase in the previous month. Motor vehicles, parts and accessories sales fell 0.3% and wholesale trade of household goods was down 3.8%. Sales in Yukon (-10.4%) and Nunavut (-20.5%) plummeted, while sales in Prince Edward Island (+9.6%) climbed.

  Source: Statistics Canada

Gambling

- **Gambling revenue from government run gambling activities in BC was $1.0 billion in 2001, up from $403 million in 1992.** Gambling profits also saw substantial growth, rising from $239 million in 1992 to $584 million in 2001. Seventy percent of households in BC spent money on at least one gambling activity. On average, people eighteen years of age and older in BC spent $319 on gambling, up from $155 in 1992. The national average was higher at $447 but this is partly because VLTs are not permitted in BC. Lotteries were the main source of gambling revenue in Canada in the early 1990s, but by the end of the decade casinos generated more revenues.

  Gambling industries employed 42,000 people in Canada in 2002, 3.5 times as many ten years ago (12,000). Over half (52%) of the workers in the industry were under the age of 35. Most of them (82%) worked full-time. Only 9% of workers in the gambling industry

Report | Review and Outlook for BC Exports

Did you know...
109 million pounds of tomatoes were produced in greenhouses last year, making up 23% of total Canadian production. The tomatoes were valued at over $120 million.

had a university degree while over half (54%) had at most a high school diploma. The average hourly wage of males working full time in the gambling industry was $17.50, while females took home $14.60 an hour. Ontario employed half (49%) of all workers in the gambling industry, while BC's share was 10%. *Source: SC Catalogue 75-001-XIE*

Volunteering

- **In 2000, 6.5 million Canadians volunteered, donating over 1 billion hours of time.** Fifty-five percent of volunteers were employed, 43% on a full-time basis. Of the employed volunteers, almost half stated that they received employer support for their volunteer work. Support in the form of time off (57%), use of workplace facilities (57%) and allowing a change in work hours (54%) were the most common. Half of public sector workers who volunteered received recognition from their employer, while only 41% of volunteers who worked in the private sector were acknowledged for volunteering. More private sector volunteer workers reported receiving support for a change in work hours (58%) than their public sector counterparts (45%).

Source: SC Catalogue 75-001-XIE

Spending on Drugs

- **British Columbians purchased $1.65 billion of prescription and non-prescription drugs in 2000.** Prescription drugs accounted for 75% of total expenditures. Per capita, expenditures were $407, of which $303 was spent on prescription drugs. Over half (54%) of prescribed drugs were financed by the public sector, the highest provincial rate in Canada.

  Canada-wide total expenditures on prescribed and non-prescribed drugs were $15.1 billion. Preliminary estimates suggest that expenditures rose to $18.1 billion in 2002. Per capita, drug expenditure was highest in Ontario ($534) and lowest in BC ($407). Nationally, the public sector financed 45% of purchases of prescribed drugs. The proportion contributed by the public sector was highest in Northwest Territories (74%) and Nunavut (73%). Public sector funding was lowest in Prince Edward Island (32%). Drug expenditures accounted for 15% of total health expenditures.

Source: Canadian Institute for Health Information, Statistics Canada

Agriculture

- **Farmers across the country stated that they planned to plant less oats, barley and lentils this year and increase amounts of wheat, canola and flaxseed.** Canola is expected to see the biggest increase (+13.8%), followed by flaxseed (+6.7%) and corn for grain (+0.5%). Wheat acreage is forecasted to rise 0.4%. Farmers anticipate they will plant fewer oats (-8.6%) and decrease seeding of soybeans (-6.2%). *Source: Statistics Canada*

Advertising

- **Operating revenues of advertising and related service industries in BC jumped 5.0% in 2001 to reach $403 million.** The number of active firms grew from 1,123 in 2000 to 1,321 in 2001. Wages, salaries and benefits climbed 27.4%. Nationally, operating revenues fell 3.0%.

  Canadian net revenues (including investment income, capital gains, extraordinary gains and other non-recurring items) of advertising and related service industries rose 5.9% in 2001 to reach $5.1 billion. Traditional advertising firms saw a 1.4% decline in revenues while revenues for specialized advertising industries (such as public relations and billboard renters) were up 13.0%.

Source: Statistics Canada

The Nation

- **The Canadian composite leading indicator advanced 0.2% in March.** The composite index combines indicators from manufacturing, retail, housing and the stock market. The housing indicator slipped (-1.0%) as housing starts contracted from the high reached in February. The retail sector sent mixed messages. While furniture and appliance sales (+0.7%) saw continued growth, sales of other durable goods (-0.4%) fell. *Source: Statistics Canada*

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Infoline Report

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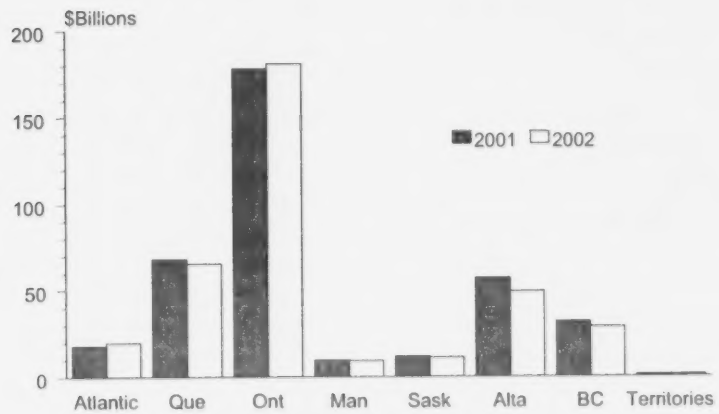
Review and Outlook for BC Exports

2002 in Review

The value of BC origin commodity exports fell almost 10% from 2001 to 2002. Commodity prices were the driving force behind the decline, particularly for energy products. The price spike for electricity and natural gas that occurred in late 2000 and early 2001 helped inflate export figures and when prices returned to more normal levels in 2002, the value of exports consequently dropped. This is particularly apparent with respect to exports of electricity, which increased by 37% in terms of quantity from 2001 to 2002, but fell 87% in terms of value. The implicit price of electricity exported from BC plummeted from over $340 per megawatt hour in 2001 to just over $33 per megawatt hour in 2002, a 90% decline. Natural gas did not have quite as dramatic a drop in price, but the implicit price differential was still quite substantial (-37%).

Falling prices for energy and forest products resulted in lower values for BC origin exports in 2002

Falling energy prices were the main reason for the drop in value of exports from BC and Alberta



As a result of the substantial drop in energy prices, Alberta (-14%) and BC (-10%) suffered the largest drops in value of exports of all provinces in Canada

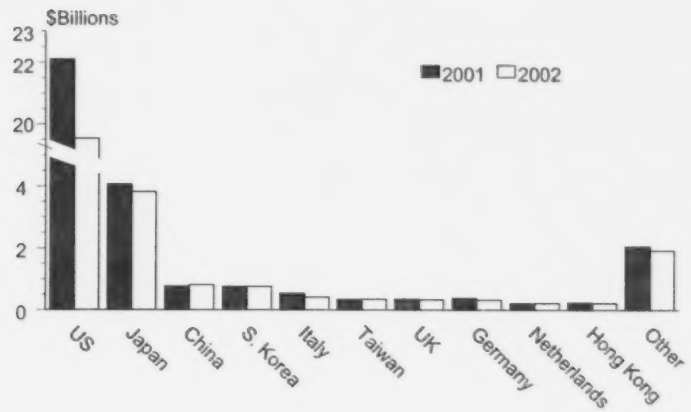
Commodity prices in the forest sector also had a negative effect on the value of BC origin exports. Prices for both pulp and newsprint were down from a year earlier and exports of these goods dropped both in terms of quantity and value. The softwood lumber dispute with the United States also affected exports, but in an unexpected way. Duties averaging 27.2% on Canadian softwood lumber destined to the US became payable as of May 22, 2002. Canadian companies, particularly in BC, responded to the duties by ramping up production

BC lumber companies increased production to minimise costs, which helped drive down prices such that despite an increase in the volume of exports, the value fell

at efficient mills and closing down inefficient mills in order to minimise costs. As a result, the lumber market became oversupplied and prices fell. Despite the punishing duties, BC producers shipped just under 7% more lumber (to all destinations) in 2002, but the value of exports was 4% lower than a year earlier.

The combination of price deflation for energy and forest products drove the value of exports to the United States down from $22.1 billion in 2001 to $19.5 billion in 2002. However, the US was not the only country to spend less on BC origin exports in 2002. Of the top ten destinations for BC commodity exports in 2002, seven experienced a decline in the value of shipments from BC.

The value of BC origin exports declined for most destinations in 2002



Seven of the top ten destinations for BC exports in 2002 experienced a decline in the value of shipments from British Columbia

Outlook for 2003

The large number of variables involved in matters of trade makes it difficult to predict what the year 2003 will yield in terms of the value of exports from BC, but it is probably safe to say that one should not expect robust growth. Geopolitical uncertainty arising from the possible conflict in Iraq and terrorist threats, combined with uncertainty regarding the softwood lumber issue could negatively impact BC exports, but, on the other hand, if commodity prices improve, the value of BC exports could also rise.

The looming conflict in Iraq has cast a shadow over economic growth in many countries, not the least of which has been the United States. The impact of the uncertainty over Iraq has resulted in soaring costs for oil and delays in investment decisions, keeping growth of the US

The threat of a war in Iraq is having a dampening effect on the global economy and could result in reduced demand for BC exports

economy at modest levels. While Canadian economic growth has been more robust, significantly outpacing that of its neighbour to the south, a continuing slump in the US will almost certainly become a drag on the Canadian economy as well unless fortunes turn around quickly. With the United States taking in almost two-thirds of BC origin exports, the health of the US economy and the quantity of US housing starts will heavily influence the strength of BC exports. If American manufacturers are producing less, they will need fewer British Columbia material inputs and if American consumers continue to cut back on spending, that will translate into less demand for BC products as well. This indicates that if BC exports are to experience strong growth in 2003, there needs to be a quick resolution to the situation in Iraq.

Japan's economic difficulties have resulted in reduced demand for BC products

Compounding the problem of a lethargic US economy is an even greater economic slowdown in Japan. British Columbia depends on Japan as a customer for its exports more than any other province in Canada. In 2002, 12% of BC exports went to Japan, but this is well down from about 28% in 1990. Economic difficulties have plagued Japan for several years now, reducing Japanese demand for BC goods, such as coal, that are used as inputs to Japanese production. Since the Japanese economy is export-dependent, not unlike BC, it too will suffer in the event of a war in Iraq, and subsequently, Japanese demand for goods from BC will likely fall. In addition to external factors, the Japanese economy continues to suffer from the slow pace of reform of its financial institutions. Most economists predict that economic growth in Japan in 2003 will be flat and this does not bode well for a significant increase in exports to that country.

The appreciation of the Canadian dollar could result in a reduction in the value of BC exports

Another factor that will significantly impact the value of BC exports is the exchange rate. The American dollar is depreciating against many world currencies, including its Canadian counterpart and this will likely result in a lower value of exports from Canada. The Canadian dollar has already appreciated substantially against the US greenback in the first quarter of 2003, and there are signs that this could continue. The Bank of Canada recently raised its trend setting rate by 250 basis points and has indicated that there will be further increases later in the year. Meanwhile the US Federal Reserve Board is expected to keep a lid on rate increases until later in the year, possibly as late as October. This should help drive the Canadian dollar up even further and many economists are predicting it will go as high as between 69 and 70 cents US. This could have a two-pronged effect on Canadian exports. First, the cost of Canadian exports to American buyers will increase, which could reduce demand. Second, the value of exports in Canadian dollars will decline if the price (in American dollars) does not increase enough to offset the exchange rate effects.

This brings up the next crucial factor that will affect the value of BC exports, which is the price of commodities. On the positive side, prices for natural gas are expected to remain high. The combination of the conflict in Iraq, cold weather and a supply that is growing slower than demand will likely continue to exert upward pressure on natural gas prices. This should result in an increase in revenue from natural gas exports from BC.

Prices for natural gas are rising, which should help boost the revenue from natural gas exports from British Columbia

Prices for electricity may also rise in 2003, but according to BC Hydro, snow packs are at low levels, which may mean that surplus electricity available for export may be in short supply. If this is the case, it is possible that the volume of exports of electrical energy could fall off from last year's pace. If price increases are not enough to compensate for this drop in quantity, revenue from electricity exports will fall.

Low snow packs could result in a reduction in BC exports of electricity in 2003

The coal industry in BC is comprised primarily of metallurgical coal, which is used in manufacturing steel. Thermal coal, which is used for electricity generation, makes up only about 5% of all coal produced in the province and is sold mainly to the United States. Metallurgical coal is sold primarily to Asian markets, particularly Japan and South Korea and prices are set annually by contract. The contract price for coal sales to Japan, which bought over a third of all coal exported from BC in 2002, will be determined by April 1. The economic situation in Japan could play a large role in the volume of coal exported from BC in 2003. Not only will the Japanese likely be pushing for a lower contract price, but demand may remain low unless production in Japan rebounds.

Coal exports could depend to a large extent on the Japanese economy

One of the key export commodities for British Columbia is softwood lumber. While commodity prices will be a factor in volumes of lumber exported, the most significant determinant of levels of exports of lumber will be whether or not there is a resolution with regard to the dispute with the United States. Negotiations have been unsuccessful to date and the outlook for a negotiated settlement in the near term is looking dim. However, in the next few months preliminary decisions for both the NAFTA and WTO challenges will be released and if they find in favour of Canada it may make the Americans more flexible in their position. In addition, the appreciating Canadian dollar could make lumber less of an issue for the Americans as some of Canada's competitive advantage is eroded.

On the other hand, it is unlikely that Canadian manufacturers will be able to continue running at full capacity if prices do not improve. It is likely that Canadian mills will have to take some down time to allow the excess supply to be drained from the market. In the short-term, the combination of oversupply and the continuation of the trade dis-

The status of the softwood lumber dispute will have a significant effect on levels of lumber exports from BC

pute will probably have a negative effect on the value of trade in softwood lumber from BC. If the trade dispute is settled soon, prospects for the industry should improve.

Commodity prices for pulp and paper products are improving, which bodes well for BC exports of these goods. Metals are also experiencing price inflation, particularly gold, which is benefiting from current global tensions. The outlook is for continued improvement for these goods once the conflict in Iraq is resolved.

British Columbia's revenue from exports in 2002 was affected primarily by commodity prices and the softwood lumber dispute. In 2003, these factors will again play an important role, but the situation in Iraq will possibly be the most significant determinant of the value of BC exports. The prospect of war, combined with a rising Canadian dollar and a prolonged softwood lumber dispute could lead to another decline in export revenue. On the other hand, rising commodity prices could offset some or all of these factors. The bottom line is that unless the Iraq situation is resolved quickly and the dispute over softwood lumber is settled, the prospects for strong growth in BC exports are slim. More likely, growth will be modest, and in a worst case scenario, there could be a third consecutive annual decline in the value of BC international goods exports.

Unless the conflict in Iraq and the softwood lumber dispute are settled, BC exports will likely experience little, if any, growth

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BC at a glance . . .

POPULATION (thousands)	Jan 1/03	% change on one year ago
BC	4,155.8	0.8
Canada	31,499.6	0.8
GDP and INCOME		
(BC - at market prices)	2001 Revised	% change on one year ago
Gross Domestic Product (GDP) *($ millions)*	130,859	1.2
GDP *($ 1997 millions)*	123,912	-0.2
GDP *($ 1997 per Capita)*	30,252	-1.1
Personal Disposable Income *($ 1997 per Capita)*	19,513	1.2
TRADE ($ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Feb	2,860	-1.0
Merchandise Exports - Feb	2,592	3.3
Retail Sales - Feb	3,468	0.6
CONSUMER PRICE INDEX		12-month avg
(all items - 1992=100)	Mar '03	% change
BC	120.6	2.6
Canada	122.8	3.0
LABOUR FORCE (thousands)		% change on
(seasonally adjusted)	Mar '03	prev. month
Labour Force - BC	2,188	0.3
Employed - BC	2,020	0.9
Unemployed - BC	168	-5.7
		Feb '03
Unemployment Rate - BC *(percent)*	7.7	8.2
Unemployment Rate - Canada *(percent)*	7.3	7.4
INTEREST RATES (percent)	Apr 23/03	Apr 24/02
Prime Business Rate	5.00	4.00
Conventional Mortgages - 1 year	5.35	5.40
- 5 year	6.75	7.45
US/CANADA EXCHANGE RATE	Apr 23/03	Apr 24/02
(avg. noon spot rate) Cdn $	1.4510	1.5682
US $ *(reciprocal of the closing rate)*	0.6891	0.6378
AVERAGE WEEKLY WAGE RATE		% change on
(industrial aggregate - dollars)	Mar '03	one year ago
BC	682.00	2.8
Canada	658.12	1.6

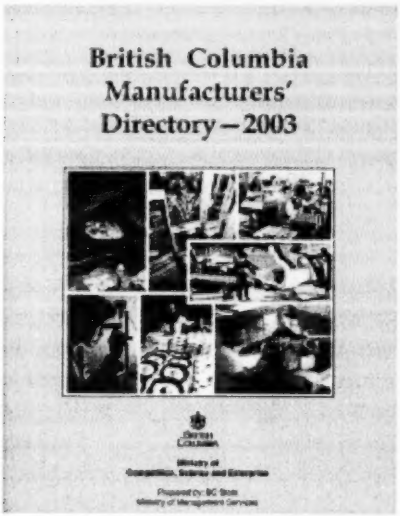
SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada

Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics

For latest Weekly Financial Statistics see www.bankofcanada.ca

2003 Manufacturers' Directory



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